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ACS Research
Report
Number 100

# International Business Arrangements Used by Cooperatives

# Abstract

## International Business Arrangements Used by Cooperatives

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U.S. farmer cooperatives have established various organizational and contractual arrangements with foreign firms to expand their global marketing capabilities. However, unlike many U.S. food processing firms, cooperatives have minimal involvement with foreign direct investment (FDI).

The comparatively small involvement of cooperatives with FDI is related to their distinctive requirements for member control and performance monitoring. As alternatives to FDI strategies for global marketing, cooperatives have established several types of alliances with foreign firms. These arrangements are often referred to as coventures, franchise partners, or strategic alliances.

Various contractual arrangements, including intellectual property licensing, make it possible for many cooperatives to accomplish effective branded products distribution in major foreign markets. Some cooperatives have also developed significant networks of foreign sales agents and have established effective working relationships with these agents.

***Keywords***: Cooperatives, agricultural exports, international joint ventures, coventures, foreign distributors, foreign subsidiaries, foreign brokers, licensing, foreign members, copacking, foreign offices.

ACS Research Report 100

October 1991

# Preface

This report describes the international business activities U.S. farmer cooperatives are undertaking to expand their position in the international marketplace. The objective is to document the various types of activities by cooperatives and to make some comparisons with non-cooperatives in the food processing industry.

Data for this report were collected from secondary sources and from interviews with cooperatives. Secondary sources of data included United Nations Centre on Transnational Corporations, Economic Research Service, USDA, and Agricultural Cooperative Service, USDA.

In-depth interviews were conducted with selected cooperatives by phone or personal visit. Cooperatives were included in the survey if they were known to be exporters and were active in one or more international business arrangements.

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# Highlights

U. S. farmer cooperatives are substantial exporters of agricultural products. Several cooperatives use various innovative organizational forms and business relationships to pursue international market opportunities.

Twenty-three cooperatives were surveyed for types of business arrangements used for international sales. The arrangements include foreign members, foreign sales agents (with or without formal agreements), foreign offices, copacking, joint ventures, coventures, and foreign licensing agreements.

Twenty cooperatives have arrangements with distributors, seven with brokers, while six have both types of arrangements. Cooperatives use more formal agreements with distributors than with brokers, 58 percent versus 13 percent. Four cooperatives have foreign offices for sales and promotion purposes.

Copacking for foreign firms is one means of exporting member products. Seven cooperatives copacked for 37 foreign firms. In some cases, cooperative raw products were exported, then processed in foreign plants and labeled with a cooperative's brand. Thirteen foreign firms copack for eight cooperatives.

Coventures were reported by eight cooperatives. All these agreements included trademark licensing with other agreement terms such as management service, know-how licensing, and distributorship. Coventures enable a cooperative to expand its capacity without increasing its ownership of physical capital.

Eight cooperatives have 42 stand-alone licensing agreements. Two are for patents; the remainder are for trademark licensing.

Foreign membership can lead to product and market diversity and expand foreign contacts. A cooperative can use overseas sources of products to supply its export markets or take advantage of seasonal differences to import into the United States.

International business arrangements impose new monitoring and control responsibilities for cooperatives. However, larger organizational demands can also lead to increased international markets for farmer/member products.

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Agribusiness firms in the United States often develop international operations by establishing either subsidiaries or joint ventures with other companies in foreign markets. Firms with extensive involvement in this type of foreign direct investment (FDI) are regarded as multinational in scope. Many marketing cooperatives are significant exporters, but have limited FDI involvement. Their efforts to develop marketing programs in foreign countries may require increasing FDI. However, such investments will probably be targeted to specific marketing tasks and not take the form of equity holdings in foreign affiliates.[1]

Member control may limit, but does not rule out, cooperative investment in other agribusiness firms or marketing nonmember farm products from foreign countries. Increased integration and/or expansion of cooperative business may also be accomplished by internalizing outside business opportunities through acquisition of other firms or through an increase in membership. Two criteria should guide members' evaluation of proposed plans for potential expansion or vertical integration of a cooperative. First, will a particular action substantially improve a cooperative's marketing capability? Second, even when a cooperative's capability is increased, will vertical integration and/or expansion have other impacts with adverse consequences on the prices or returns they receive?

Many of the key business decisions by cooperatives are beginning to have an international dimension. A cooperative's current and future decisions regarding new members, acquisitions, and joint ventures will increasingly focus on foreign farmers, cooperatives, and companies. International cooperative business arrangements and partnerships are usually more difficult to evaluate than domestic ones. To remain competitive and maintain operations on a cooperative basis, managers must design and negotiate international projects that achieve specific goals and satisfy the two criteria.

Cooperatives are implementing various types of innovative organizational forms and business relationships without substantial FDI. They make selective expenditures or investments in overseas marketing arrangements to accomplish specific tasks. Some make use of intellectual property and contracts to establish non-equity forms of business coordination. This type of arrangement is also referred to as a "coventure."[2] This approach offers less control than ownership in foreign firms or subsidiaries. International operations—such as having member products processed and branded with cooperative trademarks and distributed outside the United States—can be accomplished through a coventure. International intellectual property and contractual arrangements are emerging trends among cooperatives. A few cooperatives also use contracts to develop more effective working relationships with foreign sales agents.

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[1] Foreign affiliates of U.S. food firms reported more than $29 billion in total assets and more than $10 billion in fixed assets for 1988 (*Survey of Current Business*).

[2] Fargo L. Wells and Karen B. Dulat, *Exporting from Start to Finance* (Blue Ridge Summit: Liberty House, 1989).

## International Arrangements Framework

Agricultural Cooperative Service (ACS) surveyed a group of U. S. farmer cooperatives about types of international arrangements they have implemented. Arrangements included agreements with foreign sales agents, and more sophisticated operations such as establishing foreign offices, informal partnerships through licensing agreements, and formal partnerships in joint ventures. International arrangements surveyed cover both those used in operations that exclusively involve exporting and those that also involve packing and processing in foreign countries. Definitions of arrangements used in international business are included in the appendix.

Diagrams of cooperative control channels and international business arrangements are presented in figures 1-3. Figure 1 shows the overall channel of a cooperative's international monitoring and control operations. Figure 2 gives general export arrangement categories. It shows the export system as stages of vertical integration from exporting through U.S. intermediaries to firms with their own foreign sales offices.

Figure 3 shows interfirm arrangements more common among firms whose exporting involves packing and processing of branded food products. Figure 3 diagrams different vertical integration methods, where a cooperative would be increasingly involved with processing and packing in foreign locations rather than contract for these services. Wholly owned subsidiaries are the most fully integrated.

Both systems, figures 2-3, are subject to a tradeoff line at the bottom. In general, the more monitoring and control over business operations that an arrangement provides, the greater the direct costs. However, placement of these arrangements is at best an approximate ranking of differences in cost and control, possibly invalid for some examples of these business relationships.

Figure 1—Monitoring and Control Channel of Cooperative International Operations

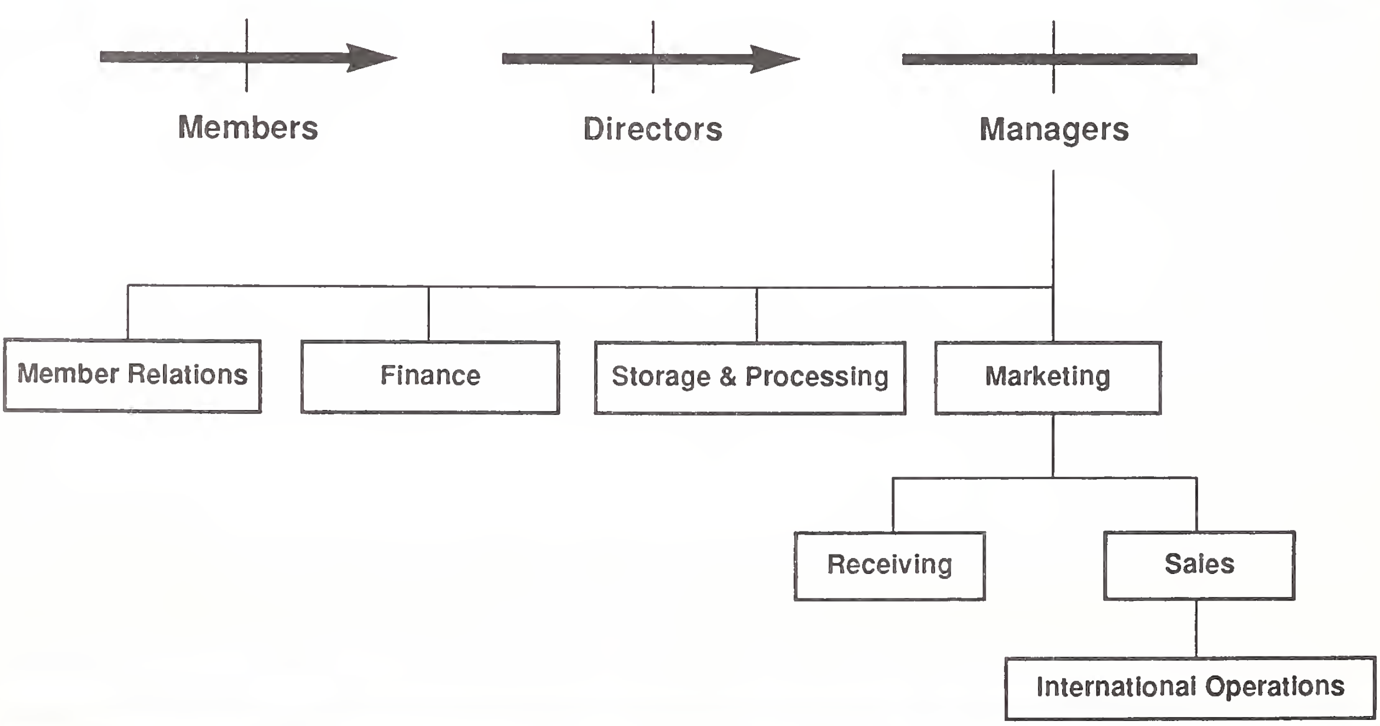


Figure 2—Export Arrangements

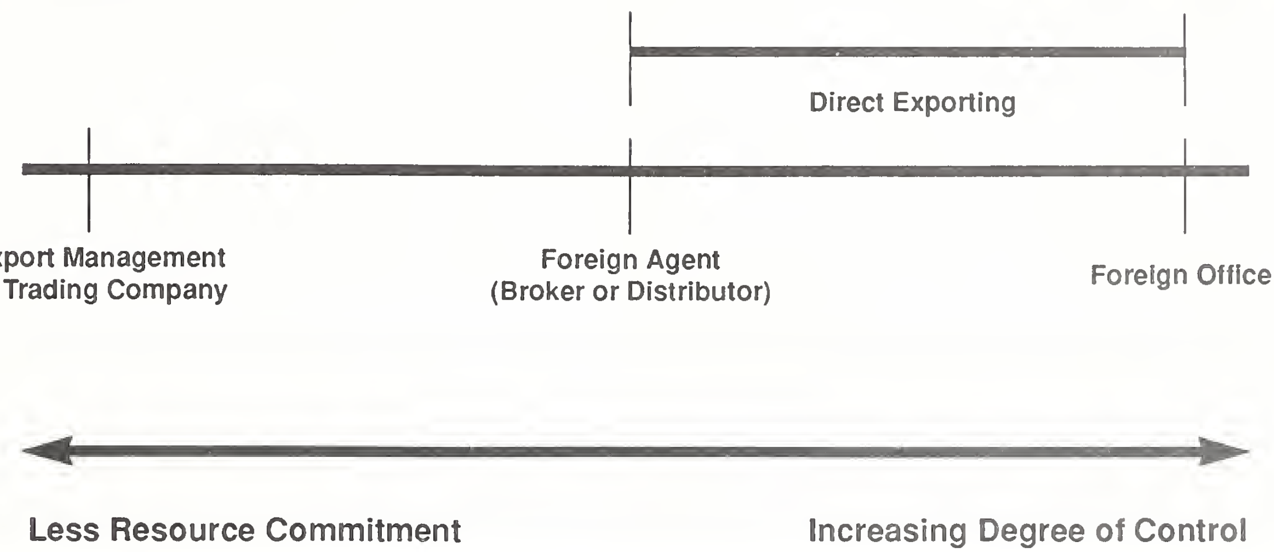
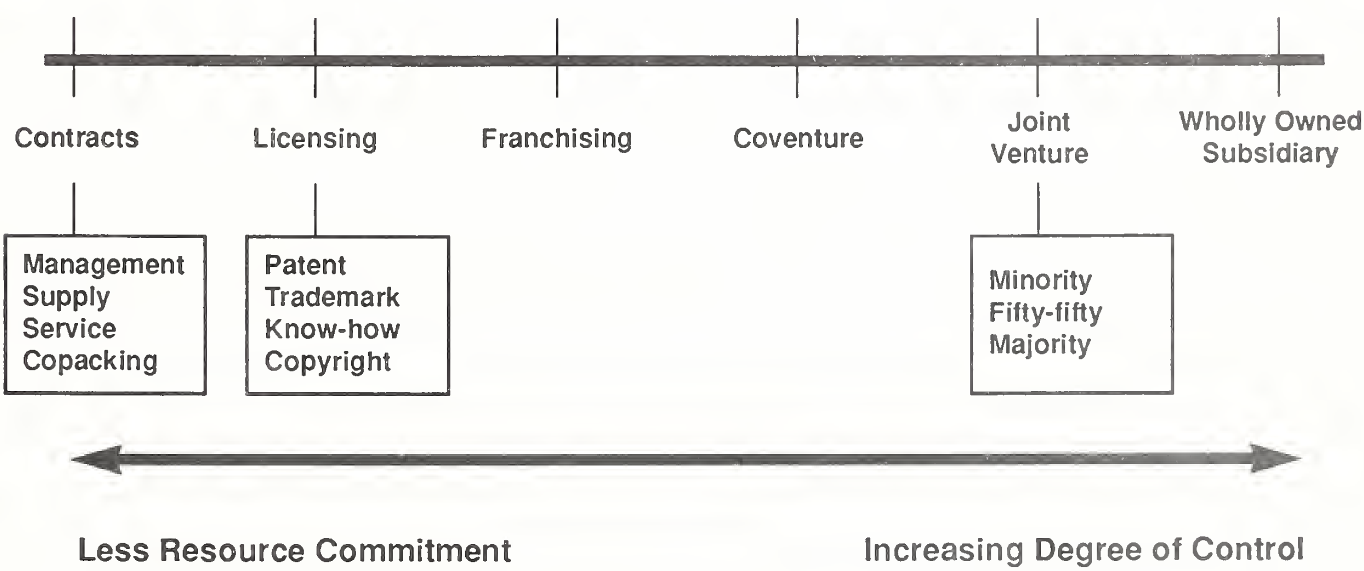



Figure 3—Exporting and Packing/Processing



Furthermore, the monitoring and control process is only one factor influencing performance. Many other factors determine success but are difficult to document and aggregate. ACS data do not indicate superiority of any one organizational form over the others. Cooperatives choose alternative arrangements that are suitable to their financial resources, as well as to be in compliance with the legal requirements of different countries and regions of the world. They are experimenting and learning more about approaches that work.

## Distinctiveness of Cooperatives in International Business

The food industry has some of the world's largest transnational corporations. One survey indicates food firms are more likely than nonfood firms to set up foreign subsidiaries.[3] Table 1 reports some selected data from a United Nations report of the world's largest transnational corporations. Exports and sales in 1985 are reported for 47 U.S. transnational corporations and for 12 processed food transnationals with headquarters in several different countries. Export "intensity" (exports divided by sales) was calculated from these data. The processed food transnationals have a lower export intensity ratio, 4.3 percent, and a higher percent of sales from foreign operations, 41.3 percent, compared with U.S. nonfood transnational corporations at 9.5 percent and 20.5 percent, respectively.

For the most part, U.S. cooperatives are single-origin processors and exporters. This generalization is supported by recent sales data for large U.S. food processing firms.[4] In tables 2 and 3, data are separated and averaged for 16 cooperatives and for 49 and 47 noncooperatives, respectively, for 1986 and 1988. In 1986 and 1988, nearly 20 percent of noncooperative food sales were from foreign food processing facilities, whereas cooperatives processed close to 100 percent in U.S. facilities.

Export food sales by U.S. processed food companies accounted for about 2 percent of total food sales in both 1986 and 1988. In contrast, U.S. processed food cooperatives had export intensities of 6.3 percent in 1986, and this ratio increased to 11.0 percent in 1988 (table 3). Total food sales decreased for these cooperatives from $9.6 billion to $8.8 billion, while exports increased from $612 million to $971 million.

U.S. farmer cooperatives' higher export intensity reflects differences in business objectives between cooperatives and noncooperatives. Cooperatives are formed to market grower/mem-

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[3] United Nations Centre on Transnational Corporations, *Transnational Corporations in World Development*. United Nations, New York 1988.

[4] Charles R. Handy, Commodity Economics Division, Economic Research Service, USDA.

**Table 1—Sales of transnational corporations, 1985**

| | Firms | Total sales | Sales from foreign operations | | Export sales | |
|---|---|---|---|---|---|---|
| | *Number* | *Million Dollar* | *Million Dollar* | *Percent*[1] | *Million Dollar* | *Percent*[1] |
| U.S. nonfood transnational corporations[2] | 47 | 232,676 | 47,716 | 20.5 | 22,086 | 9.5 |
| Processed food transnational corporations[3] | 12 | 69,232 | 28,582 | 41.3 | 2,955 | 4.3 |

[1] Percent of total sales.
[2] U.S. transnational corporations in mining and manufacturing.
[3] Transnational corporations manufacturing food, beverages, and tobacco.

Note: Only transnational corporations reporting exports were included.
Source: United Nations Centre on Transnational Corporations, *Transnational Corporations in World Development*, United Nations, NY, 1988.

bers' products and to maximize grower returns. An investor-owned firm has as its objective maximizing investors' returns. For an investor-owned food processor to achieve its objectives, it will typically seek least-cost locations for processing and shipping products to consumer markets. Many investor-owned food firms begin their international activities by exporting, then expand their international presence by acquiring or establishing foreign subsidiaries. In some cases, a firm's subsidiary exports to the parent company.

Cooperatives have not actively pursued foreign subsidiaries. Instead, several cooperatives have improved their export capability by developing alternatives to foreign subsidiaries. A survey of 23 cooperatives' 1988 operations shows the extent and new directions of international activities. Table 4 provides some descriptive statistics about these cooperatives. Information related to trademarks was obtained from survey data on proprietary brands.[5]

## Export Arrangements

Export arrangements often involve foreign sales agents. These can operate either as brokers or distributors. Some legal experts use the term "agent" exclusively for brokerage arrangements and advise against exporting to a distributor on a continuous and exclusive basis. Their concern is that a distrib-

[5] Karen J. Spatz and Bruce J. Reynolds, *Cooperative Brands* (Washington, DC: Agricultural Cooperative Service, USDA, Service Report 27, 1990).

**Table 2—Total food sales and food sales from U.S. operations of largest U.S. food processing firms, 1986 and 1988**

| | Firms | | Total food sales | | Total food sales from U.S. operations | | U.S. food sales as a percent of total food sales | |
|---|---|---|---|---|---|---|---|---|
| | 1986 | 1988 | 1986 | 1988 | 1986 | 1988 | 1986 | 1988 |
| | *---- Number ----* | | *Million dollar* | | | | *------ Percent -----* | |
| U.S. processed food companies | 49 | 47 | 128,662 | 172,939 | 102,912 | 132,529 | 80.0 | 76.6 |
| U.S. processed food co-ops | 16 | 16 | 9,640 | 8,819 | 9,525 | 8,802 | 98.8 | 99.8 |
| Total | 65 | 63 | 138,302 | 181,758 | 112,437 | 141,331 | 81.3 | 77.8 |

**Table 3—Total food sales and exports of largest U.S. food processing firms, 1986 and 1988.**

| | Firms | | Total food sales | | Export food sales | | Export food sales as a percent of total food sales | |
|---|---|---|---|---|---|---|---|---|
| | 1986 | 1988 | 1986 | 1988 | 1986 | 1988 | 1986 | 1988 |
| | *---- Number ----* | | *Million dollar* | | | | *------ Percent -----* | |
| U.S. processed food companies | 49 | 47 | 128,662 | 172,939 | 2,540 | 3,257 | 2.0 | 1.9 |
| U.S. processed food co-ops | 16 | 16 | 9,640 | 8,819 | 612 | 971 | 6.3 | 11.0 |
| Total | 65 | 63 | 138,302 | 181,758 | 3,152 | 4,228 | 2.3 | 2.3 |

Table 4—Frequency distribution of survey cooperatives by sales, exports, and industry

| | Cooperatives |
|---|---|
| Sales ($): | |
| < 100 million | 5 |
| 100 million - 499.9 million | 10 |
| 500 million - 999.9 million | 6 |
| > 1 billion | 2 |
| Exports ($): | |
| < 10 million | 6 |
| 10 million - 24.9 million | 1 |
| 25 million - 49.9 million | 2 |
| 50 million - 99.9 million | 0 |
| > 100 million | 4 |
| Industry:[1] | |
| Fresh fruits & vegetables | 6 |
| Processed fruits & vegetables | 11 |
| Tree nuts | 2 |
| Cotton & rice | 3 |
| Dairy & meats | 3 |
| Feeds & seeds | 5 |
| Sweeteners | 2 |

[1] Several of the surveyed cooperatives are involved in more than one industry.

utor implies a more formal relationship that would more likely subject exporters to local compensation laws if they were to change their export arrangements or agent.[6] However, many cooperatives and companies have continuous and exclusive dealing with foreign distributors who offer agent services. The latter may include terms such as selling only to types of outlets that their exporter clients specify, coordinating sales promotions, or reporting sales and prices.

Table 5 summarizes agent relationships used for 23 cooperatives. Twenty cooperatives have arrangements with distributors, seven with brokers, and six have both kinds of arrangements. Most cooperatives that use foreign brokers tend to have a larger agent network than many using distributors, as indicated by a median of 20 compared with 7. However, the cooperative with the highest number of agents, 26, uses distributors.

[6] Karl G. Herold and David D. Knoll, "Negotiating and Drafting International Distribution, Agency, and Representative Agreements," *The International Lawyer*, vol. 21, No. 4, Fall 1987.

Table 5—Organizational arrangements cooperatives use for exporting—survey of 23 cooperatives for 1988 operations[1]

| | Broker-agents | | Distributor-agents | | Foreign offices[2] |
|---|---|---|---|---|---|
| | total | agreements[3] | total | agreements[3] | |
| Total arrangements | 178 | 36 | 292 | 123 | 7 |
| Total of sample with one or more arrangements | 7 | 3 | 20 | 14 | 4 |
| Percent of sample with one or more arrangements | 29 | 13 | 83 | 58 | 17 |
| Median arrangements | 20 | 10 | 7 | 3 | 2 |
| Highest incidence | 65 | 20 | 76 | 76 | 3 |
| Lowest incidence | 2 | 6 | 1 | 1 | 1 |

[1] Sample size is 24 because the fresh and processed product operations of one cooperative were surveyed separately.
[2] Includes both foreign sales and offices that are exclusively for promotion purposes.
[3] Number of agent arrangements out of the total that are under a written agreement.

Fourteen of the 20 cooperatives that use distributors, or 70 percent, operate with formal agreements, while only 3 out of the 7 that use brokers, or 43 percent, have such agreements. In addition, the percent of agents under formal written agreements is higher for distributors, 58 percent as opposed to 13 percent for brokers. Although this finding is from a relatively small sample, it is consistent with legal advice that exclusive exporting to distributors will usually involve more formal arrangements than agent relationships with brokers.[7]

Another related issue is whether agreements tend to be one-sided, i.e., are primarily designed to protect agents' interests. Most agents, whether brokers or distributors, request exclusive representation in their given market. Further, in some countries formal agreements enable agents to more definitively establish rights to compensation in the event such agreements are not renewed.

Information about terms that exporters included in agreements was not readily available from most cooperatives interviewed. However, some general information was provided. About a third of cooperatives with foreign agent agreements indicated they negotiate special terms in these contracts, such as restrictions on re-exporting and on duration of agreements. A limited number negotiated additional performance terms, such as requiring shared promotion expenditures or sales goals. Cooperatives with internationally recognized brands are in a better negotiating position to include performance terms than those with less well-known brands.

Some cooperatives view agent agreements as an encumbrance to be avoided and believe their potential advantages as a management tool are outweighed by their transaction costs. Not much public information is available on legal considerations when including performance terms in foreign agent agreements. Such considerations probably vary by country. It may also make a difference whether an agent is a broker or a distributor. In the ACS survey, cooperatives that negotiate performance terms have brokers as agents. Expert legal council is needed in any negotiation of foreign agent agreements, particularly if an exporter were to attempt to use such agreements as a management tool.

Four cooperatives have integrated their direct exporting by establishing their own foreign sales offices (table 5). Two of the seven foreign offices were used exclusively for market promotion purposes. At least one of these offices managed promotion programs for other commodity groups. No incidence was observed in which cooperatives share a foreign office for sales purposes, although some cooperatives perform marketing and exporting services for others.

## Combination U.S. Exporting and Packing/Processing

The arrangements described in figure 3, like those in figure 2, are transactions for services and products of longer duration than the immediate buy-sell activity of product markets. They are regarded in this paper as organizational transactions because they are part of the resources and methods a business uses to carry out its objectives. Business theoreticians have recently focused on the idea of "strategic alliances" (see Ohmae, Drucker, and Contractor and Lorange). The various arrangements in figure 3 include major means of implementing such alliances, with the exception of wholly owned subsidiaries. The term "cooperative strategies" is also used to describe such alliances.[8] They are cooperative, not in the sense of incorporated, member controlled businesses, but in the sense of game theory where two or more entities agree to coordinate their activities in some mutually beneficial or positive sum game.

Table 6 reports observations of organizational transactions, including some strategic alliances that involve U.S. farmer cooperatives. They come under four categories diagrammed in figure 3. A consistent distinction between types of arrangements as defined in the appendix was not always possible in data collection because cooperatives often had their

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[7] Ibid.

[8] Farok J. Contractor and Peter Lorange, ed., *Cooperative Strategies in International Business,* 1988.

**Table 6—Organizational arrangements with foreign firms used by cooperatives[1]**

| | Foreign copacking | | Conventures/ joint ventures[2] | Foreign licensing |
|---|---|---|---|---|
| | By co-op | For co-op | | |
| Total arrangements | 37 | 13 | 18 | 42 |
| Total of sample with one or more arrangements | 7 | 8 | 8 | 8 |
| Percent of sample with one or more arrangements | 29 | 33 | 33 | 33 |
| Median arrangements | 6 | 1 | 2 | 2 |
| Highest incidence | 10 | 5 | 4 | 28 |
| Lowest incidence | 1 | 1 | 1 | 1 |

[1] Sample size is 24 because the fresh and processed products operations of one cooperative were surveyed separately.
[2] Includes one joint venture.

own definitions or terms to describe their activities. For example, one cooperative called the set of contracts it used with foreign partners a "franchise."[9] To other cooperatives, a similar set of contracts was viewed as establishing informal partnerships and the term "coventures" was acceptable.[10] Franchises and coventures are combined into one category in reporting types of arrangements in table 6.

Figure 3 arrangements are concomitant activities to support cooperative exports. For some cooperatives, copacking for foreign firms is their primary export market. Copacking is usually governed by annual contracts that in many cases are regularly renewed, but such durable arrangements are not strategic alliances, according to business theoreticians. Cooperatives that copack usually have multiple contracts. Seven cooperatives copacked for 37 foreign firms in 1988 (table 6).

In contrast, 8 cooperatives reported a total of 13 foreign firms copacking for them, with one cooperative having 5 of these contracts (table 6). These arrangements often involve cooperative exports of raw products to be processed in foreign plants and labeled with the cooperatives' brands.

As pointed out earlier, cooperatives have relatively slight FDI (foreign direct investment). A joint venture usually involves investments in equity shares by all partners, which may explain in part why it is not used more often by cooperatives in international business. Out of the 23 cooperatives surveyed, only 1 reported an international joint venture. However, another significant international joint venture is INTRADE. INTRADE is a partnership of several U.S., Canadian, and European cooperatives for joint ownership of the majority shares of Alfred C. Toepfer, Inc., a multinational grain trading company. Only one of the six U.S. cooperatives that are partners in INTRADE was included in the survey data reported because most of these associations, although large grain exporters, do not have other types of international arrangements.

Thirty-three percent of the survey sample, eight cooperatives, reported business arrangements with foreign firms they considered informal partnerships or coventures. In each case, coventures included trademark licensing agreements. At least

[9] The term "franchise" is often defined and used in significantly different ways (See Fosu).

[10] Fargo L. Wells and Karen B. Dulat, *Exporting From Start to Finance* (Blue Ridge Summit: Liberty House, 1989)

one or more of the following types of contracts or licensing agreements was also included in these coventures: know-how licensing, management service, quality controls, specific market promotion expenditures, and distributorships.

Both U.S. farmer cooperatives and investor-owned firms appear to be making increased use of intellectual property law and contracts to establish informal partnerships or coventures with foreign firms. Licensing and performance contracting for product distribution can have advantages over joint ventures.[11] Coventures enable a U.S. food processor to effectively expand its capacity without increasing its ownership of physical capital. Furthermore, coventures dissolution is relatively easy and quick. In contrast, termination of an international joint venture can lead to protracted conflicts and litigation over property rights to physical and human capital and to distribution networks.[12]

The reported licensing agreements in table 6 are all arrangements that stand alone, and do not include those reported as part of the coventure/joint venture category. Eight cooperatives have foreign licensing agreements, and three of this group have no coventures. With the exception of 2 patent agreements, the remaining 40 licensing agreements involve trademarks.

While copacking and coventures involve exports by participating cooperatives, many licensing agreements transfer, in a prescribed way, the right to use a trademark on products that often do not originate from the cooperative. In these cases, the rationale for trademark licensing is confined to royalties and opportunities to further and reinforce consumer recognition of proprietary brands. In fact, many cooperatives use licensing royalties to finance market promotion of member products.

Trademarks are an integral part of a marketing strategy for many cooperatives. As mentioned earlier, the survey for the report, *Cooperative Brands*, collected information about foreign registrations and trademark licensing.[13] Fifty-nine cooperatives reported their trademarks were registered in foreign countries. Registration protects against others' use of the same or a similar trademark. Many cooperatives that register their brands are indirect exporters, but are active in promoting their members' products in several foreign markets. In addition, foreign registrations are required for licensing in the respective countries. The survey for cooperative brands indicates seven cooperatives are licensors to foreign firms, while two are licensees of trademarks from foreign firms.

## Foreign Membership

International activity can take the form of transnational cooperation. As discussed earlier, INTRADE is a transnational organization of cooperatives but is organized as a partnership. For purposes of marketing U.S. grower/member products, transnational cooperation has not taken the form of federations of foreign cooperatives. U.S. cooperatives use a centralized organization with foreign growers as direct members. In the Agricultural Cooperative Service's annual survey for 1989, nine cooperatives reported having foreign members.[14]

Cooperatives with foreign members have advantages in several marketing situations. When foreign member products can be exported, a cooperative improves its ability to serve its global customers, especially when U.S. member production is low. In addition, fresh product seasonality often limits cooperatives' ability to market year-round if they specialize in only one product. One way to extend the marketing season is to access products from different regions in the United States and abroad. Products from South America have the advantage of reverse seasonality. However, when foreign suppliers are members of a cooperative, there is more assurance of receiving needed qualities and quantities of products. The ability to

[11] Peter Bisson, "Ownership Isn't Always the Best Strategy," *Wall Street Journal*, Dec. 5, 1988.

[12] Yuasa, "It's Tough to Break Up, Meiji, Borden Discover" *The Japan Economic Journal*, Aug. 11, 1990.

[13] Karen J. Spatz and Bruce J. Reynolds, *Cooperative Brands*, Agricultural Cooperative Service, USDA Service Report 27, Sept. 1990.

[14] USDA, ACS data, 1989.

extend the marketing season with reliable sources of products can lead to increased demand in domestic and export markets for a cooperative. Furthermore, foreign members could lead to increased overseas contacts, which in turn could lead to increased exports.

## Summary and Conclusions

International arrangements of most any kind impose responsibilities for monitoring and control that are particularly complicated for cooperatives. An enormous amount of information is required for directors to adequately evaluate and monitor international projects. It is unlikely that such information is ever complete. The two criteria (improved marketing capability and no adverse impact on their commodity price) directors and management must use when evaluating new directions for their cooperative can involve several complicated questions in regard to international arrangements. Directors must form expectations as to whether particular international arrangements will improve future demand prospects for the cooperative's commodities. If they seem unlikely to contribute in this way, such projects should be dropped unless some other benefits criteria can be justified.

Various organizational arrangements make it possible for cooperatives to improve global distribution of member products without being multinational investment-oriented companies. However, the arrangements described in this paper do not remove the need to invest in international marketing, and some require making commitments to a foreign partner.

Commitments of either supplies or financial and human capital to a partner entail significant uncertainty. For a coventure to work, a cooperative must help its partners succeed. If the partners reciprocate, services can be carried out that would otherwise require a cooperative to incur much larger investment and other expense. Cooperatives must evaluate potential partners' expected performance. They should also consider whether they would be nurturing a partner that could develop into a serious competitive threat in the future.

Partners in either coventures or joint ventures usually must share control if such business alliances are to be successful. Reluctance to share control is central to the instability of business alliances.[15] As pointed out in figures 2 and 3, the degree of control tends to increase with the level of investment. However, what is often overlooked and of equal importance is that the requirements and responsibilities to exercise control also increase when firms make financial investments.

FDI and control issues in business alliances are different for cooperatives than they are for investor and profit-oriented companies. In general, cooperatives confront international markets with specific and, perhaps, inflexible marketing objectives, in contrast with pursuit of profit opportunities in diverse industries.

The degree of control necessary to derive and secure benefits from a coventure is less than it is in joint ventures. This condition parallels the fact that investment requirements are lower in coventures and, hence, have less control than in joint ventures. A coventure specifies a particular service to be carried out, whereas a joint venture involves holding foreign equities. Participants are residual claimants to the profits of the enterprise. A joint venture enables and requires far more monitoring and control than a coventure.

The ability to accomplish international marketing objectives without acquiring ownership of foreign assets has improved in recent years as more countries have strengthened laws pertaining to contracts and intellectual property.

By means of contractual arrangements, cooperatives can develop international food marketing projects that in the past were predominantly carried out by large transnational companies. Moreover, appropriate contracting techniques and arrangements with foreign food businesses can enable cooperatives to customize projects so that clearly defined benefits will be captured in the returns to the products their members deliver, as opposed to maximizing profits of a partially or

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[15] Kenichi Ohmae, "The Global Logic of Strategic Alliances," *Harvard Business Review*, March-April 1989.

wholly owned subsidiary. The cooperative form of business can effectively extend its marketing capability in international business. Its arrangements, objectives, and strategies will reflect member interests and, for this reason, will differ from the approaches to international business taken by investor-owned firms.

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# APPENDIX

## Definitions of Arrangements in Figures 2 and 3

### Exporting

*Export management or trading companies (EMCs or ETCs)*—handle much of the export process for many U.S. food companies and cooperatives. They can provide brokerage services, but usually take title to products from their client suppliers. This method of exporting does not necessarily have lower costs than operating through a foreign agent but affords less control than the other techniques reported in figure 2.

*Foreign agents*—can either offer brokerage services or buy directly from exporters and provide distribution services. The latter arrangement usually requires an agent agreement in the form of a distributorship. A grantor of a distributorship may limit the distributor in areas such as market, territory, advertising, quality of goods on sale, risk allocation, and distributorship procedure. In addition, a distributor is usually not allowed to change the product in any way. Agent agreements for either brokers or distributors will often contain duration limits and renewal procedures. However, U.S. exporters must be aware of termination regulations in different countries.

*Foreign offices*—are staffed by an exporting firm's own employees. They are usually set up as sales offices with direct control by the home office. They provide information about the local market to the home office. These offices carry out functions similar to those performed by agents.

### Combination U.S. Exporting and Foreign Packing/Processing

*Contracts*—are made in almost any type of transaction and agreement, but in terms of business arrangements at least three types establish longer term relationships than "arms length" sales but involve limited collaborative decisionmaking. Many firms use special contracts for activities that cannot be accomplished adequately through normal market transactions and where creation of a subsidiary or joint venture would be uneconomical or otherwise undesirable.

*Supply and copacking*—are common in the domestic market and are established between firms of different countries. Supply contracting involves yearly contracting for unprocessed products. Copacking involves packing a processed product for another firm's private brand. For example, a cooperative packs members' products for a foreign company which then exports the final product.

*Management contracts*—a foreign company manages a project or enterprise for a local firm and will turn management authority over to it after a certain period.

*Technical service*—technical services include assistance on special processing techniques that support trade relationships. Turnkey projects are a common form of this type of contract. For example, a turnkey project involves one company setting up a processing plant and when the plant is fully operational the contracted firm discontinues its part in the operation.

*Licensing agreement*—is a contract giving a licensee limited legal right to use the licensor's patent, trademark, or other intellectual property such as know-how.

*Patent licenses*—generally grant limited rights to use of technology or application of research & development (R & D).

*Trademarks*—or service marks often need to be registered in any country where an exporter is having its branded products distributed to establish exclusive rights to their use. If a foreign agent or partner were involved with packing or processing, trademark licensing agreements would be required.

*Know-how*—that is not patented is often part of a contract because it can include trade secrets, plans, photographs, blueprints, specifications, manuals, and technical assistance provided by a licensor.

*Copyrights*—are exclusive rights to creative works, including advertising and promotion literature, shop manuals, and other technical documents made available to the licensee.

*Franchising*—is a particular type of licensing agreement. A local franchisee pays fees and royalties, and must comply with certain regulations in return for a franchise package that includes trademarks, know-how, local exclusivity, and management assistance.

*Joint ventures*—involve the establishment of a legal entity to facilitate collaborative business activities among two or more partners. They can take a corporate or partnership form, and usually involve foreign direct investment, but far less than is required for establishing wholly owned subsidiaries.

*Coventures*— is a term used to designate collaborative business activities that do not involve equity investment and in some cases avoid having to establish a separate legal entity. Attorneys usually call this form of business arrangement "teaming contracts," but the term "coventure" is used by business management consultants.

*Subsidiaries*—are a form of foreign direct investment. They can be established as a division of a multinational corporation, or can sometimes be effectively established by controlling the majority share of a foreign company's equity.

**U.S. Department of Agriculture**
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Agricultural Cooperative Service (ACS) provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The agency (1 ) helps farmers and other rural residents develop cooperatives to obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

ACS publishes research and educational materials and issues *Farmer Cooperatives* magazine. All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex, age, marital status, handicap, or national origin.

* U.S. G.P.O.:1991-311-340:40517/ACS